Crown Corporation
BUSINESS PLANS
FOR THE FISCAL YEAR 2013–2014

Nova Scotia Municipal Finance Corporation
Business Plan 2013–2014

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Message from the Minister and the Chair

The Nova Scotia Municipal Finance Corporation (NSMFC) is a Crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act in 1979 and began business in January 1980. The Minister of Service Nova Scotia and Municipal Relations is responsible for NSMFC, and the Deputy Minister serves as chair of the board of directors.

The corporation's purpose is to provide the lowest cost of financing available to its clients, which include municipalities, municipal enterprises, school boards, and health authorities. In accordance with the Municipal Finance Corporation Act, all municipalities and municipal enterprises must finance their external capital requirements through the corporation. Currently, most school board and hospital capital expenditures are financed directly by the province.

The NSMFC is forecasting to have over $772 million in debentures outstanding at March 31, 2013. New debenture issues in 2013–2014 are estimated to be in the range of $172.2 million, which will be balanced against debenture retirements of $93 million.

The corporation is governed by a board of directors appointed by the Governor in Council. Legislation requires that two of the board members be appointed on the recommendation of the Union of Nova Scotia Municipalities. An additional member of the board is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia. These appointments provide municipalities with important representation on the NSMFC board. Four full-time staff members of the corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

The Honourable John MacDonell
Minister

Kevin Malloy, CA
Chair

Mission

To provide capital infrastructure financing to clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Link to Municipal and Departmental Priorities

The NSMFC contributes to Service Nova Scotia and Municipal Relations' departmental priorities by helping to finance infrastructure projects that create economic opportunities and safe and sustainable communities. NSMFC loans are used to finance sewage treatment plants, solid waste facilities, and water services that promote clean and healthy communities. Loans are also made to finance streets, buildings, recreation services, and the purchase and development of land. Improvements in each of these areas contribute to safer and healthier communities in Nova Scotia. By working with municipalities to develop recommended financial management practices and adopt North American standards in budget presentation and financial reporting, the NSMFC contributes to the development of fiscal stability in Nova Scotia municipalities.

Planning Context

The NSMFC faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

Ensure access to capital markets and the financial and administrative ability to meet municipal government demand for capital infrastructure funding.

Challenges:

- Global capital markets continue to face challenges and this trend is expected to continue during the current year. Canadian capital markets are not necessarily insulated from the trends in these global markets. Global events may pose challenges for municipal debt issuers and the municipal sector's cost of funds.
- Municipal issuers may very well experience deteriorating financial conditions over the upcoming year.

Opportunity:

- The NSMFC continues to be able to borrow under the Province of Nova Scotia's provincial guarantee, which provides greater borrowing predictability and stability. The province's General Revenue Fund has purchased all NSMFC debt issues since 1998 and is expected to continue to do so in the future.

Maintaining current knowledge of developments in municipal government capital finance.

Challenge:

- As a small organization it is challenging to develop, maintain, and demonstrate expertise in municipal government.

Opportunity:

- The NSMFC hired a new manager of client services, who will focus on developing its programs and services.

Maintain financial self-sufficiency.

Challenge:

- The NSMFC must remain economically viable in both the short and long terms. This includes matching assets and liabilities both to amount and maturity and maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within the corporation's budget.

Opportunity:

- The NSMFC remains stable, as it has for over 30 years. In addition, no client of the NSMFC has ever defaulted on a loan, which enables the NSMFC to remain stable and continue providing loans to its clients.

Identify client needs and respond to them.

Challenge:

- Municipalities in Nova Scotia must plan and finance their long-term capital infrastructure needs.

Opportunities:

- Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options.
- Opportunities also exist to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices.

The major risks to the corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The NSMFC will continue to work with provincial departments to align both sets of priorities.

Strategic Goals

The NSMFC's strategic goals are designed to further municipal and departmental infrastructure objectives, which contribute to the creation of economic opportunities and building safe and vibrant communities.

Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are appealing places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission as well as to provide support for infrastructure, economic, and community priorities:

- Our clients will be provided with capital infrastructure financing at the lowest possible cost, within acceptable risk parameters, and their particular debt structure and timing needs will be met.
- Access to capital markets will be ensured through sound management of all financial aspects of the corporation, including credit risk and asset/liability management.
- Financial management knowledge in municipalities will be strengthened, and municipal capital project planning and financing will be promoted.

These goals are in line with the government priority of creating good jobs and growing the economy. Building and maintaining infrastructure creates jobs; allows local businesses to transport goods to market; connects Nova Scotians to vital services, employment, and education; and leads visitors to every corner of the province.

Core Business Areas

1. Providing flexible financing options at the lowest available cost

- Provide financing for clients' approved funding requirements by using pooled debenture issues and short-term loans.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Municipal Fund, where funding is available for projects meeting established criteria at below-market rates.

2. Ensuring access to capital markets

- Ensure that appropriate processes are in place for evaluating the creditworthiness of the loans made by the corporation.
- Ensure that the corporation's assets and liabilities are closely matched in both amount and maturity.
- Administer the corporation's financial resources prudently to ensure that the corporation's administrative expenses and reserve balances are within approved policies.

3. Helping build financial management and knowledge

- Partner with municipal clients, Service Nova Scotia and Municipal Relations, and the Association of Municipal Administrators of Nova Scotia on the topic of capital planning and finance.
- Develop programs and services geared toward enhancing our clients' knowledge of capital planning and financing.
- Maintain links with the investment community, public sector finance practitioners, and academics, and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for 2013–2014

The following details the actions, products, and services that the NSMFC intends to carry out in order to fulfill the corporation's mission and to meet its strategic goals.

1. Providing capital financing at the lowest available cost

- The NSMFC will provide low-cost financing by issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to our clients. In 2013–2014 the new debenture issuances are expected to be in the $172.2 million range, which is balanced against retirements of existing debentures of approximately $93 million.
- Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- The corporation will offer short-term financing for municipalities to fund cash flow requirements between the completion of capital projects and the issuance of debentures.
- The NSMFC will facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Municipal Fund, where funding is available at below-market rates for projects meeting established criteria.

2. Ensuring access to capital markets

- Obtain verification of creditworthiness from Service Nova Scotia and Municipal Relations (for municipal borrowers) prior to settling the parameters for pooled issues.
- Match the amount, term, and timing of NSMFC debentures with loans to municipalities.
- Manage the NSMFC's financial resources (budget and reserves) in accordance with policies established by the corporation's board of directors.

3. Helping build financial management and knowledge

- Sponsor training workshops aimed at enhancing the overall knowledge of municipal finance and budgeting for municipal staff and councillors.
- Offer training designed to promote effective and efficient financial management.
- Promote the municipal use of the Debt Affordability Model, and provide technical support for municipal administrators. The Debt Affordability Model is a tool used by municipalities to help determine how much debt is too much debt to carry. The model can also be used by municipalities for multi-year budgeting and forecasting and analyzing revenue and expenditure options.
- Conduct research and analysis of what municipalities require to increase clients' infrastructure borrowing capacity, and develop and tailor our programs and services accordingly.
- Work with the corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying them.

Human Resource Strategy

Organizations with small staff are challenged when developing human resource strategies, particularly in the area of succession planning, as the skills requirements are diverse. The board's strategy has been to develop and retain existing staff and build capacity by involving other civil servants in the operation of the NSMFC through corporate officer positions and secondment opportunities. Development and training opportunities are made available to existing staff to enable them to stay abreast of developments in the industry. The corporation's human resource strategy is aligned with the government resource strategy.

Budget Context

Nova Scotia Municipal Finance Corporation Administration Budget

	Estimate 2012–13 ($ 000)	Forecast 2012–13 ($ 000)	Estimate 2013–14 ($ 000)
Total program expenses—(gross current)	555.4	496.3	557.8
Net program expenses—(net of recoveries)*	0.0	0.0	0.0
Salaries and benefits	371.7	329.6	372.2
Funded staff (gross FTEs)	4	4	4

* The NSMFC is completely self-funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short-term investments.

NSMFC Statement of Financial Position March 31, 2012

Financial assets	**($)**
Cash and cash equivalents	6,344,453
Accrued interest receivable	10,210,297
HST receivable	547
Accounts receivable	—
Loans to municipal units	733,039,744
Total Assets	**749,595,041**
Financial liabilities	
Accounts payable	65,220
Accrued interest payable	10,189,073
Employee obligations	68,917
Debentures	733,008,304
Total liabilities and equity	**743,331,514**
Net financial assets	**6,263,527**
Accumulated surplus	**6,263,527**

NSMFC Statement of Operations, year ended March 31, 2012

	Estimate 2012	Actual 2012
Revenue	**($)**	**($)**
Interest on loans to units	34,210,534	33,172,602
Interest on short-term investments	111,507	78,550
Recovery of issue cost	365,682	230,267
Administration fee	440,000	291,901
Total revenue	**35,127,723**	**33,773,320**
Expenses		
Interest on debenture debt and short-term loans	34,208,701	33,170,779
Debenture issue expense	373,834	228,822
Administrative expense	521,015	491,929
Total expenses	**35,103,550**	**33,891,530**
Annual operating surplus (deficiency)	**24,173**	**(118,210)**
Accumulated surplus, beginning of year	**6,381,737**	**6,381,737**
Accumulated surplus, end of year	**6,405,910**	**6,263,527**

Outcomes and Performance Measures

Core Business Area 1 *Providing Capital Financing at the Lowest Available Cost*

Outcome	Measure	Data	Target 2013–14	Target 2014–15	Strategies to Achieve Target
Provision of lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing of debenture issues (2013 client satisfaction survey)	90%	95%	95%	Monitor alignment of debenture issues with the construction completion schedule and capital budgeting process Improve application process by working with clients to ensure quick processing of debenture documents
	Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs (2013 client satisfaction survey)	90%	95%	95%	Promote short-term financing program Work with clients on financing options (payments and terms) Communicate financing options more effectively (i.e., through the website and consultations) Communicate NSMFC rates and products more effectively with clients (e.g., through the AMA list server and consultations)
	Quality of credit loans	Procedures ensure creditworthiness of loans	Regular review of loan procedures	Regular review of loan procedures	Maintain quality of portfolio
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial guarantee allows the NSMFC to price off the Province of Nova Scotia spread	Maintain access to the provincial guarantee	Maintain access to the provincial guarantee	Promote profile of NSMFC credit quality to maintain a strong relationship with government to ensure its support of the provincial guarantee

Core Business Area 2 *Ensuring Access to Capital Markets*

Outcome	Measure	Data	Target 2013–14	Target 2014–15	Strategies to Achieve Target
Ensure that a sustainable source of funding is available from clients to ensure the operational viability of the corporation	Client default rate	0%	0%	0%	Ensure that all loans are creditworthy Promote the Debt Affordability Model Play a more active role in the creditworthiness procedure (Temporary Borrowing Resolutions) Monitor loan payment process
	Matching assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans	Assets are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	Match the term and timing of NSMFC debentures and loans to clients

Core Business Area 3 *Helping Build Financial Management Knowledge*

Outcome	Measure	Data	Target 2013–14	Target 2014–15	Strategies to Achieve Target
NSMFC client use of the Debt Affordability Model	Percentage of municipal clients that have used the Debt Affordability Model	50% (2013 survey results)	60%	60%	Work with clients to help them implement the Debt Affordability Model Tailor Debt Affordability Model to better suit the needs of clients
NSMFC client use of the Financial Management Best Practices	Percentage of municipal clients that have used the Financial Management Best Practices	35% (2013 survey results)	40%	50%	Work with clients to help them implement best practices of their choice
Increased overall municipal finance knowledge among municipalities	Attendance at NSMFC-sponsored Municipal Finance Workshops	81.5%	90%	90%	Promote the workshops more effectively to municipal staff and council members Maintain the no-fee structure to attend the workshop
Increased knowledge and uptake of NSMFC programs and services	Percentage of municipal clients that are aware of NSMFC programs and services	86% (2013 survey results)	95%	95%	Update and revitalize website Develop web-based programs such as webinars Produce more promotional materials on a regular basis (e.g., pamphlets, brochures) Obtain greater exposure to municipal councils to promote programs and services